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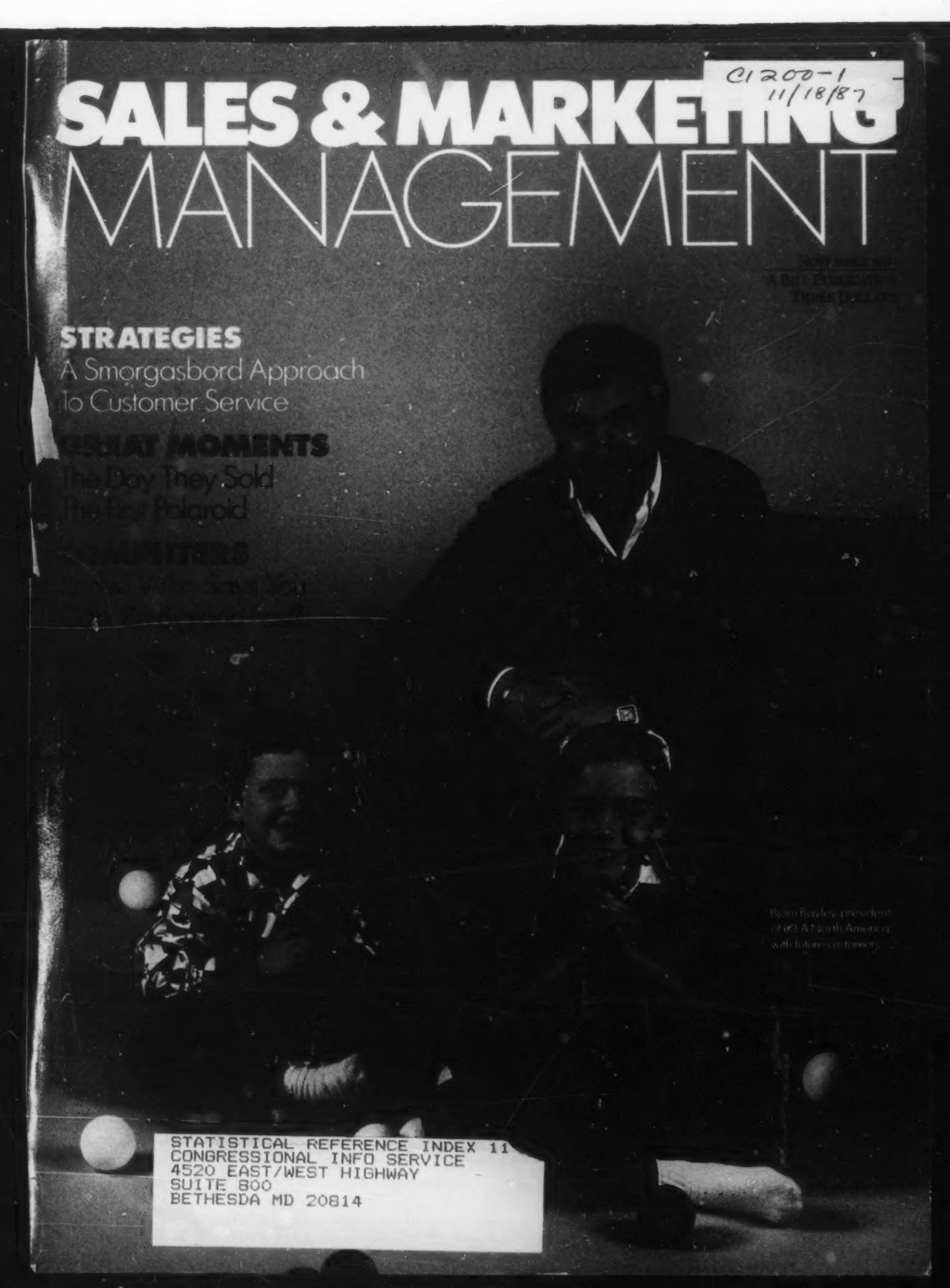

Ryan Bayley, president of ICI North America with future customers

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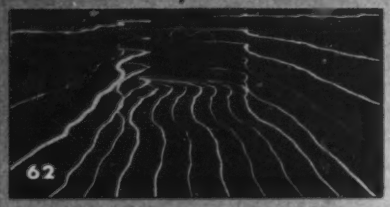

COVER PHOTOGRAPH BY BILL KELLY

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EDITOR'S SIDE POCKET

NOT QUITE CHILD'S PLAY

They say writing is a lonely job, and it is if you exclude those who have an unnatural relationship with their word processors. But sometimes the aftereffects of article writing can be quite jolly, and I submit the cover for this issue as evidence of that.

Our cover story this month deals with the "new wave" of European retailing, as represented by IKEA, a Swedish furniture retailer that up to now has had a rather low profile in the U.S., despite $2 billion in sales worldwide. At the heart of IKEA's vision of customer service is making the buying experience as painless as possible. Among other things, for parents with kids in tow, that means a playroom to check them in before getting down to the serious business of shopping. What better way to illustrate that concept, we thought, than to show Bjorn Bayley, the young president of IKEA North America, with some of his chain's young charges.

One never knows what to expect from a shooting—just our luck that the kids in IKEA's playroom would turn out to be the wrong age or uncooperative or unphotogenic—so we covered our bets. Art director Ken Surabian asked senior editor Bill Kelley, who wrote the IKEA piece, and managing editor Al Urbanski, to show up with progeny in tow.

As you can see by the cover photo, we got what we went after, but things did not go as smoothly as they might appear. For one thing, there were layers of Styrofoam balls on the floor of the kids' playroom—so many, in fact, that it has been nicknamed the ballroom. Well, throwing the balls is off-limits, of course, but kids being kids. . . . Could that be why the smile on Bayley's face seems a trifle . . . ah . . . *fixed*, shall we say? For that matter, Urbanski tells me that his 4-year-old son Jake took the photographer's instructions too literally. Until Al explained to him that "hold it" doesn't mean forever, it appeared that Jake's smile had been cast in concrete.

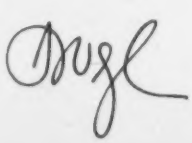
So much for background. In the foreground stands Kelley's article itself, and it's very much worth your attention. At a time when everybody's pitching customer service but the pitches often fall outside the strike zone, IKEA seems to be right on the money.

Speaking of hitting home, let me not forget Herbert Kahn, a hi-tech marketing consultant and astute observer of the human condition. Mr. Kahn despairs of all the conventional approaches toward making the U.S. more competitive in the world market (like selling, at a fair price, products that people want and need). Instead, he proposes a more radical course: reeducation of the consumer.

"What we need," he writes in the *New York Times*, "is a customer trained not only to expect that the product that he purchases usually won't work but to see in that very fact an exhilarating challenge. Should the product happen to function on any given occasion, this ideal customer will boast about it all over the place. If it doesn't, he will lie about it and boast anyway, or at least keep quiet and gather his forces for another try as soon as possible."

Believe it or not, Mr. Kahn points out, customers like that exist today. If you doubt it, just walk into any casino in Las Vegas or Atlantic City, and look at the gamblers. "If they happen to win," observes Mr. Kahn, "they eagerly tell everybody, thereby encouraging others to get in on the easy money. If they lose, they pretend that they won anyway."

What marketer could ask for anything more?



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into thinking that they will receive free information through the mail on Medicare plan changes and insurance programs by returning a reply card. In actuality, the information is delivered by an insurance agent, who then tries to sell a policy—forbidden for insurance companies but, technically, not for unregulated lead generation firms.

Bowman said he recently turned down the business of a prospective client from Colorado who wanted him to use a Washington, DC, post office box for mail order replies, a common ruse that implies the mailer is linked with a government office or a national association. "Then he called me back and said, 'How about Pueblo, Colorado,' which is where the state's IRS forms are returned," says Bowman. Again the answer was no.

"When we represent a client, we feel we have an obligation to stay within the insurance guidelines," says Bowman, an 11-year veteran of insurance company marketing departments.

Bowman has written to all 50 state insurance commissions asking them to expand on what, in most cases, amounts to a few ambiguous paragraphs regulating lead generation. Although a number of respondents have thanked him for his concern, a batch of regulators have written to tell him they can't deal with him because his business is not an official insurance entity.

SELLING AND THE LAW

SUPREME COURT TO HEAR MARKETING DISPUTES

Challenges to parallel importers and a manufacturer's right to terminate a dealer are key issues for marketers as the Supreme Court convenes this term. In both legal battles, however, Congress could be the final arbiter.

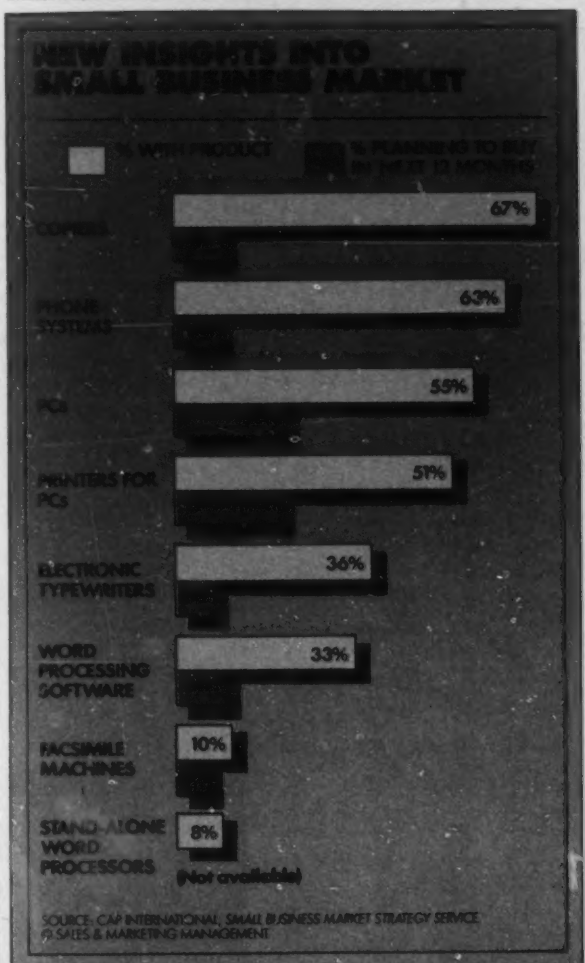
The gray market case ("K mart vs. Cartier") represents the latest attempt by brand name manufacturers to bar importing legally made goods outside their established distribution chains. At issue is a challenge to the Customs Service's continued refusal to take such action and a provision of the 1930 Tariff Act used to support its view. Suits by brand name manufacturers have brought conflicting interpretations of that statute from two federal courts. While one upheld Customs, the other said the vaguely worded provision allows the U.S. trademark holder to block goods from being imported without its consent.

Discount retailers are also threatened by Business Electronics Corp. vs. Sharp Electronics. The high court has agreed to settle a 13-year-old fight that began when Sharp terminated a Houston business calculator dealer after a rival complained of price cuts. A jury found in favor of BEC and ordered Sharp to pay $600,000, an award that was trebled to $1.8 million.

The decision was reversed by a federal court, which said the trial judge erred by not instructing the jury to find whether Sharp and the complaining dealer had attempted to fix prices. Antitrust law would be violated only if the two had conspired, it said. But the terminated dealer says the effect is the same, since competition was eliminated.

The court might not have the final say in either case, however. Legislation has been introduced on both sides of the gray market issue, while the Sharp case could figure into a pending rewrite of rules affecting resale price maintenance.

SALESGRAPH



Some 2.1 million small businesses are expected to spend at least $30 billion on hi-tech hardware and services the next 12 months vs. $28 billion the last 12 months, according to estimates revealed by CAP International, the Marshfield, MA, research firm. Raymond L. Boggs, director, small business market strategy service, thinks the $30 billion may be a conservative figure.

CAP's surveys turned up several revealing figures: Spending on services, such as maintenance repairs and training, approximates 48% of hardware outlays. Spending per employee descends as firm size increases, from $1,254 for the smallest to $415 for the largest. The reason, says Boggs: "The larger the office, the more people are supported by one machine." Surprisingly, PCs are present in more than half of small businesses, while copiers enjoy the most popularity among hi-tech gear.

Marketers who focus on small businesses should include certain consumer households in their plans, says CAP president Charles A. Pesko Jr. Examples: The 3 million householders who operate businesses in their homes, and the 11 million who buy hi-tech hardware for hobbies, household management, and work brought from the office.

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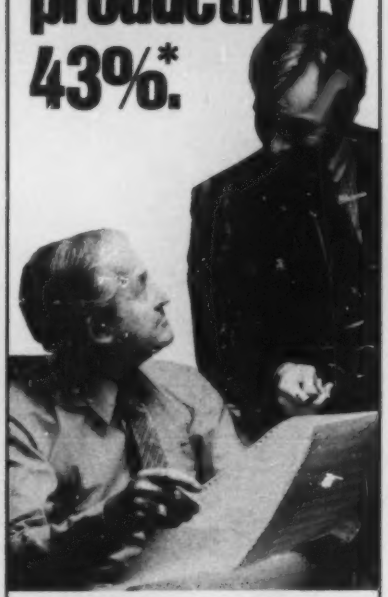

* **Survey results, published in the 1987 May issue of Sales & Marketing Management, illustrate productivity gains averaging 43% when personal computers are employed in the sales function.** "The message is clear," they concluded..."the laggards will have to step into the age of sales automation."

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and the need to learn. That's because it just isn't possible to predict at the start the ways in which information technology will change the sales force."

While automating sales and marketing isn't easy, Treacy says, it is inevitable because of the opportunities information technology will bring—better customer targeting, for example, or more efficient use of the salesperson's time. Besides enabling marketers to enhance their products with added values and services, the technology also allows greater flexibility in negotiating the conditions of the sale.

LAPTOP'S THREE MUSTS FOR SUCCESS IN SALES

Portable PCs sold today are used more for sales automation and support than for any other identifiable purpose, says *Portable Computers II*, a new report from Market Intelligence Research, Mountain View, CA.

Report author David Warren says nearly one-third of the PCs sold today are earmarked for salespeople. He leans to the view that portables are

MARKET HIGHLIGHT

PCs in the Home

PC penetration in the home is only halfway to the 30% level that national advertisers like to see before they tinker with a new medium for reaching consumers. Currently, 16% of U.S. households have a PC, according to the annual census from InfoCorp, the Cupertino, CA, market research firm.

However, advertiser interest in PC owners as a viable market segment will quicken in the near future, as a result of both the handsome demographics PC owners offer and emerging trends in the PC industry (see table).

The increasing prevalence of color monitors, the strong shift to attractive graphics, and the easier user interfaces that characterize the workplace will filter down to the home market, stimulating purchases. Speaking at a recent InfoCorp client briefing in Boston, David A. Carnevale, vice president, microsystems research, noted two significant trends to watch: "IBM's endorsement of attractive graphics and text in its new PS/2 line, in an effort to catch up with the Macintosh, and Apple's augmenting its Apple II line with voice and video for adult education use. As a result, a key marketing trend will be PC use in more areas of people's lives."

Software will also become easier to use, attracting noncomputer types. William J. Higgs, director of software research for InfoCorp, points out that what he calls "new age" software is distinguished by more comfortable graphic user interfaces (as opposed to keyboards) such as windows, icons, menus, and pointing devices.

Two other trends that could hype home market sales: Greater availability of the new CD-ROMs (compact-disk read-only memory), which combine video, text, data, graphics, and sound, and the so-called cocooning phenomenon, which will make PCs a fixture in home electronic/entertainment centers.

PC OWNER DEMOGRAPHICS SHINE

	HOME PC USER	TOTAL POPULATION
HOUSEHOLD INCOME		
Under $20,000	19%	43%
$20,000–$39,000	42	35
$40,000 and over	39	22
EDUCATION		
Under 4 yrs. of high school	4%	12%
High school graduates—3 years of college	63	67
4 yrs. of college or more	33	21
OCCUPATION		
Professional, managerial	34%	21%
White-collar	25	26
Blue-collar	11	14

NOTE: OCCUPATIONAL DETAIL WON'T ADD TO 100% BECAUSE OF CATEGORIES NOT INCLUDED, SUCH AS LABORERS, FARM WORKERS.
SOURCE: INFOCORP, *MICROSYSTEMS USER TREND ANALYSIS PROGRAM*.

most effective when part of an integrated system that is comprised of portable PCs, network data controllers who direct the exchange of data between salesperson and host mainframe, and both applications and communications software. The success of such a system, he says, depends on incentives, function, and components.

The immediate incentive, of course, is increasing the quantity and quality of sales calls. In addition, Warren points to improving sales management by timely access to activity reports and streamlining the product distribution cycle.

The functional elements include key data files, which salespeople extract from the corporate mainframe before making sales calls. Orders and customer call records are then automatically uploaded to the central mainframe. Also created automatically are expense tracking and electronic mail.

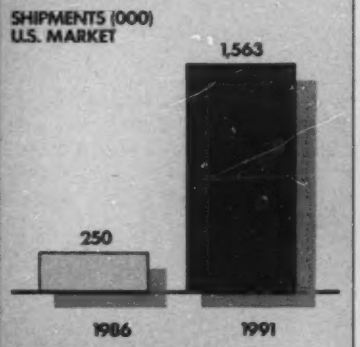
Warren cites two examples:

A regional telephone operating company that equipped sales reps with laptops for on-site problem solving. Before portables, the rep would visit the site to collect data and return for further work; now, he does it all on the spot during the initial visit.

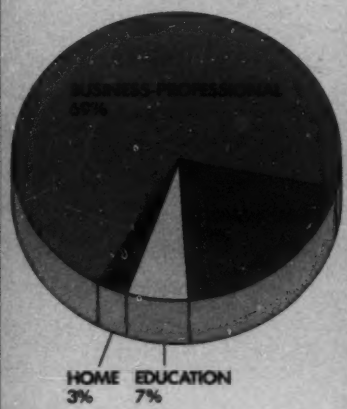
An industrial chemicals firm uses portables for technical sales support. Sales reps who deal with thousands of products varying in chemical composition, physical structure, and user properties need expert technical backup and libraries of test data in order to satisfy customers. Instead of carrying bulky manuals, the reps now generate on-the-spot, application-specific computations on demand.

A marketer must meet two major challenges when contemplating sales automation with portables, Warren

AS LAPTOP MARKET EXPLODES 525%...



...BUSINESS-PROFESSIONAL USERS DOMINATE USER SEGMENTS



SOURCE: MARKET INTELLIGENCE RESEARCH CO., PORTABLE COMPUTERS II.
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contends: "Design of a total system and willingness to invest substantial money."

Design of such a system depends on the amount of data the salesperson has to carry in a portable, whether orders will be entered directly from remote locations, and whether management is included in the loop. Thus, although costs vary widely, Warren estimates that for a sales force of 100 or more, the tab will run at least $5,000 per salesperson.

FORMULA FOR GOOD SALES SOFTWARE

Sales and marketing software vendors should not rely too much on technology, warns Charles A. Khuen, president of the Adelie Corp., the Cambridge, MA, developer of integrated sales programs. Speaking to his peers at last month's 1987 Information Management & Exposition Conference in New York City, Khuen outlined five basic requirements for success in automating sales and marketing—and buyers as well as sellers should keep them in mind:

- "The technical underpinnings must be transparent to the end user, who cares only that the technology helps him do his job better."
- "The system must provide a feeling of local ownership of the data to accommodate the entrepreneurial style found in field sales and external selling channels and the independent and skeptical attitudes characteristic of salespeople."
- "The system must be flexible and provide for quick response to programs, territories, and promotions issued from headquarters, as well as transmit new account information from all selling channels."
- "Sales and marketing departments must be supported, not managed, by the system to ensure its enthusiastic use."
- "Sales and marketing data must be available throughout the company, and the system's maintenance, repairs, and enhancements must be done without interrupting overall operations."

APPLE BROADENS ITS FOOTHOLD AMONG THE MAJORS

If IBM hoped its new PS/2 line would blunt the inroads made on its corporate turf by Apple Computer's Macintosh, it still faces a tough sell. A survey of 30 Fortune 1000 Apple users by Forrester Research, a Cambridge, MA, hi-tech research firm, finds 83% plan to increase their commitment regardless of whether Apple is on their corporate list of approved suppliers. In fact the company *is* on the approved list at 73% of the sites, with another 3% okaying it just for desktop publishing.

"The recent Mac refinements, coupled with the management style of [Apple chairman] John Sculley, have helped convince large users that the company and the Mac design are vital," says John C. McCarthy, director of Forrester's professional automation service. Survey results show, he adds, that "Mac has its biggest advantage over the IBM PC in graphics and ease of use. Its user-friendliness is seen as a cost savings, especially among professionals who aren't computer literate." Mac's biggest weaknesses, he says are "limited availability of software and expansion features."

While the survey suggests that Apple is overcoming corporate suspicions, the company still faces a marketing challenge, McCarthy says: "Apple must segment its sales force between (1) dealers that sell to schools and

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small businesses and (2) IBM-literate dealers that sell to the Fortune 1000. The company must augment its dealer channel with a true vertical marketing effort and a direct sales force."

The only problem with that, of course, is that whenever Apple takes the smallest step toward direct selling, it gets a barrage of complaints from dealers.

PC DROUGHT OVER?

Worldwide shipments of PCs will resume double-digit growth during 1987-91, something they haven't done since 1984, according to new projections by Dataquest, a San Jose, CA, hi-tech research firm. This year will provide a taste of better days ahead when shipments rise 9.4% to 17.4 million units, but continued price competition will curb the dollar gain to 7.7%.

Despite the return of good times, PCs will continue to be price-sensitive. Dataquest's projections show worldwide shipments of high-end machines ($5,000-$10,000) will not post any growth in the forecast period, while desktops priced under $1,000 will set the pace with a compound annual growth rate of 17.6%. In dollar terms, the low-end PCs will rise only 7.4% a year vs. 15.5% for the mid-price class, with a 4.7% decline for high-end units.

Dataquest sees the following trends dominating PCs this year:

- Mass merchandisers will become a more competitive factor, targeting "customers with prior PC experience and a need to take work home."
- The market for true portables will expand worldwide by the end of 1987, with most of the growth at the high end.
- Used PCs will become a new market phenomenon, as computer dealers offer trade-ins on new machines. Reconditioned PCs would offer considerable cost savings to corporate buyers and eliminate concerns about connectivity with larger IBM systems.

PC SHIPMENTS TURN BRISK AGAIN . . .

SHIPMENTS (MIL.)	WORLDWIDE			CAGR	
Dollar Class	1986	1987	1991	1986/1987	1987/1991
$5K–$10K	1.7	1.4	1.4	−18%	N.C.
$1K–$5K	8.1	9.2	15.4	+13	+13.7
Under $1K	6.1	6.7	9.0	+ 9	+17.6
Total	15.9	17.4	25.8	+ 9%	+10.2

. . . BUT PRICE WARS CURB DOLLAR GAINS

	IF-SOLD VALUE ($BIL.)			CAGR	
Dollar Class	1986	1987	1991	1986/1987	1987/1991
$5K–$10K	$9.9	$10.2	$8.2	+ 3%	− 4.7%
$1K–$5K	18.7	20.0	35.7	+ 6	+15.5
Under $1K	3.4	4.2	5.6	+23	+ 7.4
Total	$32.0	$34.4	$49.5	+ 8%	+ 9.1%

CAGR—COMPOUND ANNUAL GROWTH RATE. N.C.—NO CHANGE SOURCE: DATAQUEST

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COMPUTER HIGHLIGHT

INFORMATION HELPS EDP'S BIG 10

The computer industry's Big 10 fared considerably better with their information processing (IP) sales than with total revenues last year, according to estimates generated by Newton-Evans Research Co., the Ellicott City, MD, research firm: Aggregate IP sales were up 11% to $83.3 billion vs. a smaller 7% rise to $100.3 billion in total revenues. Eight of the vendors boosted their IP business last year, six of them at a double-digit clip.

Collectively, IP accounted for 83% of the Big 10's total sales last year, the same as in 1985. Five of the vendors are pure plays, with IP representing 100% of sales (see table). Among the others, IP represents more than 90% of revenues at IBM, Unisys, and NCR; 53% of Hewlett-Packard's volume because of the company's strength in scientific and testing equipment; and only 19% of Xerox's, as that company moves deeper into financial services.

Indicative of the industry's slump, half of the companies saw profits fall last year and three of them (Unisys, Control Data, and Data General) finished in the red. On the other hand, Apple Computer's profits skyrocketed 152%, despite a 1% slippage in sales, as chairman John Sculley's drastic reorganization lowered the company's break-even point dramatically.

COMPUTERDOM'S BILLION-DOLLAR CLUB

	1986 INFORMATION PROCESSING REVENUES (MIL. $)	% OF TOTAL REVENUES	% CHANGE 1985–86	% CHANGE TOTAL REVENUES 1985–86
IBM	$48,902	95%	+ 8.4%	+ 2.4%
Digital Equipment	7,590	100	+13.5	+13.5
Unisys	6,947	93	+56.3	+47.5
NCR	4,467	91	+13.0	+13.1
Hewlett-Packard	3,804	53	+14.3	+ 9.2
Control Data	3,347	100	− 9.0	− 9.0
Wang Laboratories	2,643	100	+12.4	+12.4
Xerox	2,392	19	+14.8	+10.6
Apple	1,902	100	− 0.8	− 0.8
Data General	1,268	100	+ 2.3	+ 2.3
Total	$83,262	83%	+11.0%	+ 7.0%

NOTE: DETAILS MAY NOT ADD TO 100% DUE TO ROUNDING.
SOURCE: NEWTON-EVANS RESEARCH CO., *CORPORATE STRATEGIES FOR THE U.S. COMPUTER INDUSTRY, VOL. 1: THE BILLION DOLLAR CLUB.* © SALES & MARKETING MANAGEMENT

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